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John Bright
Advisor
Gas Industry Company
PO Box 10-646
Wellington

Dear John

Submission on Draft Recommendation on 27 November 2012 VTC Change Request (Balancing)

Introduction

1. Vector Gas Limited ("Vector") welcomes the opportunity to make this submission on the Gas Industry Company's ("GIC") Draft Recommendation on the 27 November 2012 VTC Change Request (Balancing) (the "Draft Recommendation").

2. No part of this submission is confidential and Vector is happy for it to be made publicly available.

3. Vector's contact person for this submission is:

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Vector supports the Draft Recommendation

4. Vector supports the Draft Recommendation to support the Change Request, and agrees that, taken as a whole, the Change Request is an improvement on the status quo and is consistent with or improves the relevant Gas Act and Government Policy Statement objectives.

5. Vector advanced the Change Request on the basis that the package of amendments in the Change Request will boost the efficiency of balancing arrangements. The gains in efficiency will be generated by a set of balancing arrangements that implement a causer pays objective. Thus, the arrangements:

(a) ensure that balancing costs are more accurately allocated to those parties whose actions (or inactions) cause the balancing costs. This is achieved by the amendments to replace the ILON process with a B2B process and also modifying the VTC to include the MPOC Peaking Charge; and

(b) ensure that those parties allocated balancing costs are unable to avoid or delay paying those costs. This is achieved by limiting the scope for disputing invoices relating to balancing to circumstances where there is a manifest error.

6. Vector considers all amendments in the Change Request are necessary to properly give effect to the causer pays objective underpinning the B2B balancing arrangements.

Vector agrees that appropriate dispute resolution processes will be in place

7. The amendments relating to balancing invoice disputes will result in an improved dispute resolution process. Vector agrees with the GIC's assessment in the following paragraph:[1]

> We think the key point to this issue is that, as long as Vector calculates invoices in accordance with the VTC, there is limited scope (and need) to dispute balancing invoices: Vector will correct invoices containing manifest errors; Shippers will have the opportunity to demonstrate prior to an invoice being issued by Vector that they did not cause or contribute to peaking costs; and Shippers have the ability to alter the way balancing invoices are calculated by using their Change Request rights.

8. Vector agrees with the Draft Recommendation that "appropriate dispute resolution processes will still be in place".[2]

9. To the extent that there remains any residual concern with the dispute resolution processes, a practical illustration of the process shows that any such concerns are unfounded.

10. If a Shipper receives a balancing invoice[3] other than as a result of a Peaking Limit being exceeded that Shipper may take the following actions:

(a) Pay the invoice in accordance with the VTC;

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[1] GIC *Draft Recommendation on 27 November 2012 VTC Change Request (Balancing)* 28 February 2013, p. 13.

[2] Ibid, p. 16.

[3] Under the VTC, a "Balancing and Peaking Pool Invoice" – s 16.2.

(b) If the Shipper reasonably believes that there is a manifest error in the invoice, the Shipper may raise the issue with Vector. Vector will then check whether a manifest error has been made, including checking that any relevant information received from Maui Development Limited (*MDL*) is without manifest error;

(c) If the Shipper reasonably believes that part or all of the amount of the invoice has been issued as a result of MDL not acting as a Reasonable and Prudent Operator (*RPO*) in relation to its balancing procedures,[4] it may raise a dispute with MDL.[5]

11. If a Shipper receives a balancing invoice as a result of a Peaking Limit being exceeded, the Shipper may take the following actions:

(a) Prior to the invoice being issued, the Shipper may demonstrate to Vector that it did not cause or contribute to peaking costs;[6]

(b) Pay the invoice in accordance with the VTC;

(c) If the Shipper reasonably believes that there is a manifest error in the invoice, the Shipper may raise the issue with Vector. Vector will then check whether a manifest error has been made, including checking that any relevant information received from Maui Development Limited (*MDL*) is without manifest error;

(d) If the Shipper reasonably believes that part or all of the amount of the invoice has been issued as a result of MDL not acting as a Reasonable and Prudent Operator (*RPO*) in relation to its balancing procedures, it may raise a dispute with MDL.

12. Given that these avenues for dispute remain open to Shippers, Vector does not see any basis for concern about refining the scope for dispute in the way that Vector proposes in the Change Request.

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[4] The Shipper may invoke s 2.2(b) of the Maui Pipeline Operating Code which requires MDL to operate the Maui Pipeline as a Reasonable and Prudent Operator, which includes balancing processes. Vector notes that this does not mean that the Shipper can dispute any invoice relating to balancing issued by MDL to Vector as Welded Party.

[5] So long as that Shipper is also a Shipper on the Maui Pipeline. Vector understands that almost all Shippers on the Vector Pipeline are Shippers on the Maui Pipeline.

[6] Vector set out a process for Shippers demonstrate that they did not contribute to or cause peaking costs in Schedule 2 of the 30 October 2012 Change Request.

Peaking Allocation Methodology

13. Vector agrees with the GIC's view that the proposed use of relevant quantities in section 1.3 of Schedule Nine is sufficiently clear in that it applies to the Receipt quantities from section 1.1[7].

14. The last paragraph on page 10 of the Draft Recommendation states that "The Peaking Allocation Methodology will apply when Vector has not acted as an RPO....". Vector submits that 8.13(b) and the Peaking Allocation Methodology operate as follows:

    (a) Where Vector has not acted as an RPO, Vector is liable to bear peaking costs under 8.13(b) calculated in proportion to the extent to which Vector's failure to act as an RPO has contributed to the Peaking Cost. The remaining peaking costs are then allocated in accordance with Schedule Nine, which may also include an allocation to Vector.

    (b) Where Vector has acted as an RPO, Vector will be allocated a proportion of peaking costs in accordance with Schedule Nine.

Non-Code Shipper Agreements

15. The GIC has stated that its support for the Draft Recommendation is conditional on Vector updating the Non-Code Shipper agreements. For the reasons below, Vector submits that the GIC's support does not need to be conditional:

    (a) Vector provided draft amendment agreements to Non-Code Shippers in respect of their Non-Code Shipper Agreements on the same date the Draft Recommendation was issued by GIC. Vector is not aware of any hurdles to the amendments being effective from the date the VTC and MPOC Balancing Change Requests are effective.

    (b) Given confidentiality obligations in respect of these Non-Code Shipper Agreements, Vector will (subject to the consent of the relevant Non-Code Shippers or in conjunction with the relevant Non-Code Shippers) update the GIC separately on these.

    (c) As noted in our submission dated 22 January 2013, Vector intends to withdraw its material adverse effect notice in respect of the MPOC Balancing Change Request after the Non-Code Shipper agreements have been amended, and therefore there is no need for the Draft Recommendation to be conditional.

[7] The reference to section 1.2 in the Draft Recommendation is incorrect and should be to section 1.1

Yours sincerely

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Commercial Manager - Networks